EXHIBIT XXXXV

USAC AGREED-UPON PROCEDURES ENGAGEMENT PLAN

General

Section 54.7 of the FCC Rules and Regulations requires use of federal universal service support only for its intended purpose. The overall objective of this engagement is to perform the Agreed Upon Procedures determined by management and approved by the FCC.

Compliance Procedures

Procedures

1. Inspect the most recent certificate of incorporation, bylaws, and articles of incorporation. Inquire and document situations where USAC has any financial investments or interest with telecommunications service providers.

2. Inquire whether USAC's Board of Directors is separate from the Board of Directors of NECA. Obtain the list of the Board of Directors of USAC and NECA at year-end to determine that no board members reside on both lists. Also, determine whether USAC's Board of Directors is in compliance with Section 54.703(b) of the Commissions rules.

3. Inquire of USAC management whether they keep separate accounting books from NECA. Obtain and inspect the general ledger ("G/L") and written accounting policies and procedures to determine that USAC maintains separate books.

4. Obtain the annual payroll report that includes basic rate of pay, bonus, any non-regular payments, or other compensation and determine that the annual salaries of officers/employees do not exceed the limits described in Section 54.715(b).

5. Obtain and compare actual administrative and capital expenditures incurred during 2003 to budgeted amounts. Note any variances of 10% and obtain management's explanations. In addition perform the following:

    a. Obtain a schedule of administrative expenses broken down by individual account as maintained in the general ledger (this includes all support mechanism accounts as well as common administrative accounts) for 2003 and compare them with the expenses incurred for 2002. Note any differences and obtain management's explanations on all account balances of $100,000 or more where the increase is 20%.

    b. Compare the actual administrative expenses for each support mechanism as well as the actual common administrative expenses incurred in 2003 with budgeted amounts for the same accounts in 2003. Document the differences.

6. Obtain and review a copy of the program and accounting policies and procedures (i.e., cycle memos, flowcharts, diagrams, etc.). Comment as to whether the written policies set forth the general framework for compliance with Universal Service rules and regulations.

7. Obtain USAC Cost Allocation Manual (CAM) and inquire of management as to whether any changes were needed to reflect the latest changes in the FCC Rules. Note that the CAM has been updated for any

needed changes. Review the CAM for compliance with Sections 54.702(k), 715(c), and 64.903 where applicable.

8. Obtain year-end schedule of all debt and investment instruments. Randomly select a sample and note any direct investments in telecommunications service providers.

9. Obtain and inspect USAC's accounting records noting whether USAC maintains separate G/L accounts for the amounts billed to contributors and amounts paid and due to service providers for eligible schools and libraries, rural health care providers, low-income consumers, and high cost and insular areas as required by Section 54.702(h) (USAC was directed by the Wireline Competition Bureau on August 1, 2000 (formerly Common Carrier Bureau) of the FCC to account for Interstate Access Support and Interstate Common Line Support as part of the High Cost Mechanism).

10. Obtain prior year's financial statement audit and AUP reports and work papers. Prepare a summary of all findings and/or observation made. Note any findings/observations that were not corrected by management and obtain an explanation for each.

Contributors to USF

Background

All interstate and intrastate telecommunication providers must submit an FCC Form 499A detailing revenue data. In addition, providers of interstate telecommunications contributing to USF must submit an FCC Form 499Q each quarter. The revenue information on the FCC Form 499Q is used by USAC to calculate universal service contributions. The revenue information on the Form 499A is used for true-up purposes. The revenue information on the Form 499A is also used by their respective administrators to determine the contributions to the Telecommunications Relay Services (TRS), North American Numbering Plan (NANPA), and Local Number Portability (LNP). The data is due on February 1, April 1, May 1, August 1, and November 1 and is filed with USAC. The February, May, August, and November quarterly data collection reports revenue data for the prior quarter and projections for the upcoming quarter. The April data collection reports the prior year's annual revenue data that is used to true up the quarterly data reported during the prior year. All carriers, other than those qualifying for the de minimis exemption, are required to complete the quarterly forms. USAC estimates revenue data for carriers that do not complete a quarterly or an annual form. The FCC has exempted from its quarterly revenue reporting requirements those carriers whose annual contribution to fund universal service mechanisms is likely to be less than $10,000. USAC requires these carriers to complete a Certification of De Minimis Exemption.

USAC files quarterly reports to the FCC detailing the upcoming quarter's support mechanism demand, administrative expenses, interest income, and revenue estimates. The information is used by the FCC to calculate the contribution factors for the USF that are multiplied by certain revenue items to get each service providers contribution amount. Each month, USAC mails to the service providers the statements containing the amount that is owed by support mechanism. All payments are sent to USAC and the cash received is applied accordingly.

The contribution process is the same for each of the four mechanisms as it relates to the data collection, the issuing of invoices and the collection of the revenue. The contribution amounts are calculated and invoiced together on one invoice. After the revenue is collected, it is tracked according to the component of total demand of each mechanism.

Objectives

To determine whether:

1. USAC has made a reasonable effort to identify all carriers liable for contributing to the USF and followed up on non-responders.

2. The revenue information from Forms 499, which is reported to the FCC for their calculation of the contribution factors, is accurate and only authorized data is accepted for processing.

3. The historical data and expected results are reasonable.

4. Invoices that service providers receive monthly are accurate and mailed in a timely manner.

5. Adjustments to contributor liability amounts or account balances are authorized in accordance with management criteria and the FCC rules and regulations.

6. Collection procedures for non-payments are reasonable.

7. The revenue collected is properly accounted for within the individual mechanisms.

8. Accounts over 90 days past due are transferred to the FCC for collection activities under the Debt Collection Improvement Act.

9. The administrative expenses for the data collection function are properly identified and allocated based on an allocation method approved by the FCC

Procedures

1. Discuss with USAC management and document procedures used to identify telecommunications carriers subject to participation in the USF. Ensure the list is not compiled from the FCC published list that will be used for comparison. Examine the list of USF contributors as prepared by USAC and compare it with the FCC published list of carriers contributing to the Telecommunications Relay Services Fund, the North American Numbering Plan Administration, and the Local Number Portability Administration and select a sample of 20 contributors to see if they are on the FCC list.

2. Discuss with USAC management the procedures in place for following up with non-responders to the FCC Form 499 data request and document in the workpapers. Obtain the database of non-responders and select a random sample to determine whether USAC management followed its documented desk procedures.

3. Obtain the database for de minimis carriers. Randomly select de minimis carriers and obtain their 499A's and compare the revenues reported on the 499-A's to the de minimis database noting any exceptions.

4. Discuss with USAC management and document in the workpapers the procedures in place to ensure that the FCC Forms 499 are reviewed for errors, omissions, mathematical accuracy and reasonableness.

5. Select a sample (document the sample selection process) of Form 499's that have been received by USAC, from the 499Q November 1, 2002 filing, 499Q February 1, 2003 filing, 499Q May 1, 2003 filing, August 1, 2003 filing, and the 499-A April 1, 2003 filing, and perform the following:

    a. Recalculate the form for clerical accuracy and completeness.

b. Trace the name of the carrier, address, and I.D. #, to the USAC carrier database.

c. Note that the service provider has certified the form.

d. Ascertained if the forms have been reviewed for reasonableness by USAC personnel.

6. Inquire with USAC management the procedures in place to ensure that revenue information obtained from FCC Form 499 is accurately summarized and reported to the FCC for their calculation of the contribution factors. Compare the 499 quarterly filings with the documentation sent to the Commission. Note any differences between the 499 information aggregated by USAC and the information sent to the Commission.

7. Test the information used to calculate the contribution factors reported on the quarterly USAC filings to the FCC by performing the following:

   a. Trace the total end user revenue base amounts to the 499 Preliminary Revenue Hand-off schedule.

   b. Randomly select carriers and trace the revenue information to the carrier Form 499 that was submitted to USAC.

   c. Using the sample selection made in b. above, verify the information on the supporting schedule.

8. Discuss with USAC management and document in the workpapers the procedures in place to ensure that contributors' historical data are current. Review the historical data for a random sample of contributors, compare with current data, and obtain explanations for variations of 20% or more.

9. Discuss with USAC management and/or personnel and document in the workpapers the monthly procedures involved in preparing and reviewing invoices. Inquire of management whether they are compliance with the documented desk procedures. Note any differences and obtain an explanation.

   To test the accuracy of the invoices that USAC sends to contributors, select a random sample of statements issued to contributors throughout the year and perform the following:

   a. Test the invoices for mathematical accuracy.

   b. Trace the carrier name, ID#, and revenue amount to the applicable Form 499 submitted to USAC.

   c. Inspect for timeliness of billing based on the invoice date.

   d. Recalculate the invoiced amounts for each mechanism based on FCC approved formulas and information from the Form 499.

   e. Trace the above selected invoices to carrier receipts (lockbox documentation, checks, wire transfers, etc.) and investigate any differences.

   f. Trace the daily lockbox report total for the days the above amounts were received, or the wire transfer amounts to the bank statement.

10. Obtain USAC management's criteria and procedures for the process of adjusting Contributor liability amounts (amounts billed and amounts due from contributors) or account balances and perform the following:

a. Discuss the procedures used by USAC personnel and compare them for compliance with management criteria and FCC Rules. Document any differences.

b. Obtain a list of carriers that amended their 499Q revenue amounts and select a random sample to determine that the revenue amount that was used for billing was the amended amounts per the amended 499Q. Note any exceptions and obtain explanations.

11. Discuss with USAC management and document the procedures performed when a contributor does not remit the required payment. Include the collection actions taken, result and reason for non-payment, the realizability of these non-responder receivables, and any FCC Notice of Apparent Liability (NAL)'s given to carriers.

12. Obtain and document in the workpapers the procedures implemented by USAC to comply with the Debt Collection Improvement Act (DCIA). a monthly list of non-collectible receivables that USAC sends to the FCC for all 12 months and select a sample of accounts for review. Effective July 1, 2003, USAC transferred 90-day delinquent accounts to the FCC (the FCC directed USAC to transfer only accounts that were 6 months to 1 year delinquent in July first and the remaining accounts in later months) for collection activities under the Debt Collection Improvement Act (DCIA). Document and verify the actions taken by USAC to receive payment from a sample of contributors for each selected account by reviewing any supporting documentation available. In addition, trace the amounts listed on the above list to the A/R analysis.

13. To ascertain whether or not cash receipts are recorded on a timely, allocated to the proper carrier, and are allocated to the appropriate support mechanism, perform the following procedures:

    a. For the invoices selected for testing in step 9, ensure that the subsequent cash receipts are applied to the appropriate carriers accounts receivable account/balance in accordance with USAC documented desk procedures.

    b. Determine that the payment received is allocated properly amongst the support mechanisms using the appropriate ratios identified in USAC's CAM.

14. For the invoices selected for testing in step 9, document the time lag between the date that USAC sends the invoices to the contributors and the date the payments are received. If the payments are received late, inquire and document whether USAC charges a late fee or interest, and if so at what rate.

15. Inquire with management as to whether there have been any instances when contributors have failed to submit FCC Form 499 by the due date. Document what procedures the administrator took to bill the contributor and verify, on a test basis, whether the bill was submitted on a timely basis and determine the rate used is in accordance with documented desk procedures and is calculated correctly for the random sample noted above.

16. Obtain the G/L and hold discuss with management to ascertain if there were any funding excesses and/or shortages. Inspect any instances on a test basis and determine whether the excesses and or shortages where handled in accordance with USAC documented desk procedures.

17. Obtain a schedule showing all data collection expenses, by month, indicating direct expenses and allocated expenses (according to USAC CAM) and document that expenses are allocated, as required, among the various administrators.

Physical Security/Information Systems Application Safeguards

The Physical Security/Information Systems Application Safeguards apply to systems and services that are used for data transmittal and storage for the Universal Service Fund and USAC. This includes all services provided and systems used by USAC vendors as well as systems managed by USAC.

Procedures

1. Discuss with management and document in the workpapers the policies and procedures to ensure that USAC information is safeguarded through a confidentiality clause contained within the employee contract.

2. Discuss with management and document in the workpapers the organizational structure to ensure that it provides for the segregation of incompatible duties.

3. Discuss with management and document in the workpapers the policies and procedures to ensure that new application systems and modifications made to existing application systems (including ensuring that existing data that is changed / converted to new systems/applications is complete, accurate, and valid) are implemented in accordance with change management standards defined by management's procedural guidelines.

4. Discuss with management and document in the workpapers the controls in place to ensure that operating system security, LAN security, Application Security, & Remote Access Security (i.e.: Citrix and SecureID) is appropriately authorized, tested, and implemented in order to prevent against unauthorized use, loss, or modification. Violations are recorded by the system and appropriate corrective action is taken as necessary.

5. Discuss with management and document in the workpapers the controls in place to ensure that physical access restrictions are implemented and administered to ensure that only authorized individuals have the ability to access or use information resources.

6. Discuss with management and document in the workpapers the controls in place to ensure that Management monitor Information Security service levels and initiate corrective action if performance does not meet expected service levels, as specified by USAC management.

7. Discuss with management and document in the workpapers the controls in place to ensure that adequate plans exist for the backup of critical resources. Also, review and test controls to ensure that a disaster recovery plan has been established and is tested at least annually. In addition, ascertain that information resources are protected against environmental hazards and related damage.

8. Discuss with management and document in the workpapers the controls in place to ensure that the data structure, is appropriately implemented and functions consistent with managements intentions and that modifications made to the existing data structure are timely and valid.

9. Discuss with management and document in the workpapers the controls in place to ensure that all production programs needed to process batch and on-line transactions are executed timely and in the proper sequence, as defined by management, to normal completion.

10. Discuss with management and document in the workpapers the controls in place to ensure that information systems strategies, plans, and budgets are consistent with the entity's business and strategic

goals. In addition, modifications to existing systems software, network and communications software and computer hardware are appropriately implemented timely and consistent with management's intentions.

In accordance with the Improper Payments Information Act, USAC is required to review annually all programs and activities that USAC administers and identify those, which may be susceptible to significant erroneous payments. For all programs and activities susceptible to significant erroneous payments, USAC shall determine an annual estimated amount of erroneous payments made. The sample size chosen for review shall be at least enough to satisfy the OMB guidance of 90% confidence level and a 5% precision rate. As a result, it has been determined that a sample size of at least 45 for each of the four support mechanisms and USAC operations is appropriate, which is identified in the applicable steps below.

High Cost Support Mechanism

Background

As of January 1, 1998, the High Cost Support Mechanism was created from the former High Cost Universal Service Fund (USF), Dial Equipment Minutes (DEM) weighting, and Long Term Support (LTS) programs, in an effort to provide better support for high cost, insular, and rural areas and to transform implicit support into explicit and portable high cost universal service support. At the time, revised high cost support included only High Cost Loop (HCL), Local Switching Support (LSS), and Long Term Support. See 47 C.F.R. §§ 36.601 through 36.631; 54.301; and 54.303. Each of these components is portable, meaning that it is available to incumbent eligible telecommunications carriers (incumbent ETCs), subject to certain eligibility criteria, and the competitive eligible telecommunications carriers (competitive ETCs) serving lines in those incumbent carriers' service areas. See First Universal Service Report and Order, 12 FCC Rcd 8776 (1997). USAC was appointed Administrator of all universal service support mechanisms, including the revised High Cost Support Mechanisms, effective January 1, 1999.

What was formerly known as USF became HCL, with NECA retaining responsibility for data collection and calculation of the HCL expense adjustment under Part 36 of the FCC's rules. DEM weighting became Local Switching Support (LSS) and is available to all incumbent ETCs with less than 50,000 lines and the competitive ETCs serving lines in those incumbents' study areas. LSS is designed to give support for smaller local exchange carriers (those with less than 50,000 access lines) in a study area that cannot take advantage of certain economies of scale involved with switching costs available to larger carriers. LTS is only available for carriers that are part of the NECA common line pool and is adjusted each year based on the change in the GDP-CPI. NECA is the vendor currently under contract to USAC to provide support in administering HCL, LSS, and LTS.

In 2000, two new components were added to the High Cost Support Mechanism: Forward-Looking High Cost Model Support for non-rural carriers (HCM) and Interstate Access Support (IAS). HCM uses cost outputs from a forward-looking economic cost model to provide support to non-rural carriers. The FCC also adopted interim hold harmless as part of its reform of high cost support for non-rural carriers. See Ninth Report and Order, FCC 99-306 (1999); see also 47 C.F.R. §§ 54.309 through 54.311. Rhoads & Sinon is the vendor currently under contract with USAC to provide support in administering HCM. IAS uses outputs from a series of mathematical formulas that measure the difference between Common Line, Marketing, and Transitional Interconnection Charge (CMT) revenue under price caps and benchmarks based on the new subscriber line charge caps. See CALLS Order, 15 FCC Rcd 12962 (2000); see also 47 C.F.R. §§ 54.800 through 54.809. NECA is the vendor currently under contract to USAC to provide support in administering IAS. In 2001, the FCC adopted certain revisions to high cost support for rural carriers. These revisions included two additional components of High Cost Loop support: Safety Net Additive support, which provides high cost support for carriers who have made a "significant investment" in their telecommunications plant in service (TPIS), and Safety Valve support, which provides high cost support for post-transaction investment in acquired exchanges. See RTF Order, FCC 01-157 (2001) see also 47 C.F.R. §§ 36.605 (safety net) and 54.305 (safety valve).

In 2002, an additional component was added to the High Cost Support Mechanism – Interstate Common Line Support (ICLS), effective July 1, 2002. ICLS supports interstate common line costs by replacing the carrier common line (CCL) charge with explicit support that will be available to all ETCs. It provides support for rate-of-return carriers to the extent that subscriber line charge (SLC) caps do not permit them to recover their common line revenue requirements. For the initial implementation year (July 1, 2002 – June 30, 2003), ICLS was calculated based on revenue data and line count data provided by each rate-of-return carrier. Each competitive ETC serving in a rate-of-return carrier's service area is required to file line counts and, consistent with all other components of the High Cost Support Mechanism, receives the same per-line support amount as the incumbent carrier. See MAG Order, FCC 01-304 (2002); ICLS Implementation Order, FCC 02-89 (2002); see also47 C.F.R. §§ 54.901 through 54.904.

Carrier Requirements

For HCL, there is an annual data collection process whereby incumbent ETCs submit required information to NECA, consistent with Part 36 of the FCC's rules. The incumbent ETCs also file a certification with NECA validating the data is correct. The data is due from the carriers on July 31 and filed by NECA each October with the FCC and USAC. Based on the data collection results, NECA calculates the national average cost per loop (NACPL), which determines the amount of funds to be disbursed to each carrier. Effective July 1, 2001, the NACPL for rural carriers is frozen at $240.00, as mandated by the RTF Order. An incumbent ETC is eligible for support if its loop costs exceed 115% of the national average loop cost. Competitive ETCs serving in those incumbents' study areas are also eligible for HCL. There is a FCC mandated cap limiting the amount of total disbursements to incumbent ETCs for the year. As a result, the NACPL has to be adjusted if payment amounts are over the cap. The individual amounts are calculated, totals are approved, and the information is downloaded to USAC to be disbursed.

Historically, rate-of-return carriers recovered their common line revenue requirements through subscriber line charges (SLCs), carrier common line (CCL) charges, and LTS. The purpose of LTS was to prevent the CCL rates of high-cost carriers that were members of the NECA common line pool from rising significantly above the national average CCL rate. In 1997, the FCC concluded that LTS should be continued, but with modifications to make the support explicit, portable, and competitively neutral. Rate-of-return carriers currently receive LTS amounts based on the support received in the previous year, increased by inflation (i.e., the annual percentage change in the GDP-CPI). Competitive ETCs serving in those carriers' study areas also qualify for LTS.

LSS is available to incumbent ETCs serving fewer than 50,000 lines in a study area and the competitive ETCs serving lines in those carriers' study areas. LSS payments are based on projected data that is subject to an annual true-up. On October 1 of each year, incumbent ETCs serving fewer than 50,000 lines are required to submit projected LSS data, which is used to calculate LSS for the following calendar year. Incumbent ETCs are then required to file actual LSS data 12 months after the end of that calendar year, and the true-up adjustment is performed 15 months after the end of the calendar year. For example, incumbent ETCs submitted projected LSS data on October 1, 2000, and that data was used to calculate 2001 support. On December 31, 2002, incumbent ETCs submitted actual LSS data for 2001, and the 2001 true-up adjustment was included in those carriers April 2003 support payments. USAC accepts data from NECA on behalf of companies participating in NECA's traffic sensitive pool. For cost companies, NECA provides information from its collection of data for the annual NECA tariff filing. For average schedule companies, settlement information is used to calculate the amounts according to a formula developed by NECA and approved by the FCC. Non-pool participants submit their data either on form LSSc (for cost companies) or LSSa (for average schedule companies).

HCM support, available only to non-rural incumbent ETCs and the competitive ETCs serving lines in those incumbents' study areas, is based on a forward-looking economic cost model. The model generates the statewide average cost per line, which is then compared to the national average cost to determine eligibility for forward-looking support. If the statewide average cost per line exceeds 135 percent of the national average cost per line (the national cost benchmark), the state qualifies for support. Support is provided for all intrastate costs per line that exceed the national benchmark. Forward-looking intrastate costs per line equal 76 percent of the forward-looking costs generated by the model. The remaining 24 percent is presumed to be recovered through the interstate jurisdiction.

The FCC runs the model once a year and presents the results to USAC. USAC uses the model results to distribute support to the non-rural carriers in the states that are eligible for HCM support. USAC also targets the HCM support at the wire center level. The total support in a state is targeted so that support is only available to non-rural carriers serving those wire centers with forward-looking costs that exceed the benchmark. Interim hold harmless support for non-rural carriers is targeted in a similar, but not identical, fashion. USAC also receives quarterly updated line counts that are filed with NECA pursuant to Part 36 of the FCC's rules.

IAS is available to price cap carriers and the competitive ETCs serving lines in those carriers' study areas. Price cap carriers must submit CMT revenue information on an annual basis and line count information (with residential and single-line business lines reported separately from multi-line business lines) on a quarterly basis. Price cap carriers must also submit unbundled network element (UNE) zone rates and maps, if UNE zones have been established. IAS is targeted at the UNE zone level. The FCC's rules contain a series of formulas that are used to calculate IAS for price cap carriers.

Interstate Common Line Support (ICLS) is available for rate-of-return carriers and the competitive ETCs serving in those carriers' study areas. Rate-of-return carriers are required to submit projected common line revenue requirement data on July 31 of each year and actual common line revenue requirement data on December 31, 2003 and each year thereafter. Rate-of-return carriers are also required to submit line count information on March 31 of each year, as well as updated line counts on a quarterly basis if a competitor has been designated as an ETC and is reporting lines in the incumbent's study area. Competitive ETCs are required to submit line count information on a quarterly basis. Residential and single-line business lines must be reported separately from multi-line business lines. Pursuant to FCC rules, ICLS is calculated by subtracting from each eligible rate-of-return carrier's common line revenue requirement the following data points: (1) SLC revenue; (2) CCL charge revenue; (3) special access surcharges; (4) line port costs in excess of basic analog service; and (5) LTS revenue.

The HCL, LTS, LSS, HCM, IAS, and ICLS monthly payments are forwarded to the USAC disbursement team. Payments to NECA member companies are disbursed to NECA, as the carriers' agent, via ACH. Payments to non-NECA member companies are processed through the USAC accounts payable system.

For competitive ETCs (CETCs) to receive HCL, LTS, LSS, HCM, and ICLS, they must report quarterly updated line counts according to the following schedule: (1) by July 31, submit line counts as of December 31 of the previous year; (2) by September 30, submit line counts as of March 31 of the current year; (3) by December 31, submit line counts as of June 30 of the current year; and (4) by March 31, submit line counts as of September 30 of the previous year. For CETCs to receive IAS, they must submit quarterly updated line counts according to the following schedule: (1) on the last business day of March, submit line counts for the period ending December 31 of the previous year; (2) on the last business day of June, submit line counts for the period ending March 31 of the current year; (3) on the last business day of September, submit line counts for the period ending June 30 of the current year; and (4) on the last business day of December, submit line counts for the period ending September 30 of the current year. CETCs receive the same per-line support available to the incumbent carriers in whose study areas the CETCs serve.

Objectives

To determine whether:

1. The high cost mechanism data that is submitted to USAC's treasury for payment is accurate, reasonable, and has been reviewed by applicable USAC personnel.

2. Carriers are designated as Eligible Telecommunications Carriers (ETCs) and are only receiving support for those areas designated.

3. Carriers are receiving support for those High Cost Support Mechanism components for which they qualify.

4. Carriers have timely submitted the appropriate annual certifications.

5. Carriers 2001 cost and expense data submitted to NECA is consistent with the same data submitted from NECA to USAC and it is appropriately incorporated into the 1st Quarter 2003 FCC filing projection.

6. Support payments are properly calculated and reviewed by appropriate USAC personnel for accuracy.

7. Support payments are properly disbursed.

Procedures

1. Compile the FCC High Cost Filing (appendix HC01) for all four quarters of 2003 noting, by study area code, the total annual high cost support amount each carrier received.

2. Indicate the total annual support amount for each High Cost Support Mechanism component and calculate the percentage of each component to the total support.

3. Indicate carriers' total annual support amount by: a) rural versus non-rural; b) cost versus average schedule; c) incumbent versus competitor. Calculate the percentage of each group to the total support.

4. Randomly select the following incumbent carriers for testing: a) 10 carriers receiving HCL; b) 5 carriers receiving HCM; c) 10 carriers receiving LTS; d) 5 carriers receiving LSS1; e) 10 carriers receiving IAS; and f) 10 carriers receiving ICLS. Confirm that the list of carriers selected for testing encompasses all high cost support received. In addition, ensure that the sample approximately represents the same percentage as the total population (as identified in step #3).2

5. For selected carriers that were designated within the last three years, examine the ETC designation order to ensure that the carrier was designated when support was received. Document the area(s) in which the carrier has been designated to serve.

6. For selected carriers, examine the annual certification(s) for timely submission (due 10/1/02 for HCL, LSS, and HCM; due 6/30/02 for IAS and ICLS, and due 6/30/03 for LTS) and whether the certification

[1] Ensure selection includes both NECA pool and non-pool participants.

[2] Although carriers are selected based upon receiving support in one particular component of the High Cost Support Mechanism, all support received shall be subject to this AUP engagement. In addition, be sure not to select a study area code that was subject to the prior year's audit.

notes a reference to CC Docket No. 96-45 and a statement that "the support provided will be used only for the provision, maintenance, and upgrading of facilities and service for which the support is intended."

High Cost Loop Support

7. Review and document in the workpapers the controls USAC and its vendors have to ensure that input data items are complete and reasonable. Through inquiry, determine that only authorized input is accepted for processing.

8. Review and document in the workpapers the controls USAC and its vendors have to ensure that only one data submission is processed for each cost company. Through inquiry, determine that no changes are made to an ETCs high cost data submission without the proper documentation and authorization.

9. Review and document in the workpapers the controls USAC and its vendors have to ensure the ETCs high cost data is reasonable in relation to the ETCs historical data and expected results.

10. Review and document in the workpapers the controls USAC and its vendors have to ensure a post-processing review of high cost data is performed in accordance with management criteria. Through inquiry, determine that a post-processing review is performed.

11. For incumbent carriers receiving HCL, note that the carrier is a rural carrier by confirming carrier's classification on file with the FCC.

12. For the incumbent carriers selected, identify their competitors. Obtain the effective date of the competitor's ETC designation order to ascertain whether the carrier was designated as an ETC prior to receiving support. Obtain the annual state certification for timeliness (due 10/1/02). Document whether the competitor's ETC designation order is granted at a level different than the incumbent.

13. For competitor ETCs: a) Obtain from NECA (in part as its role as USAC's vendor and in part in its role under Part 36 of the FCC's rules) line count data submitted as of September 30, 2002, that was filed on March 30, 2003 and support payment disbursed 3rd Quarter 2003.

14. Recalculate the competitor's support received in the 3rd Quarter 2003 to ensure that it is in accordance with applicable FCC rules. Ensure the carrier's support amount is computed based on the disaggregation path selected. Compare recalculation to the NECA detail disbursement authorization. Document differences.

15. Randomly select any month within the 3rd Quarter 2003. Inspect the disbursement authorization for adequate review .

    a. Inspect documentation to ascertain whether the Service Provider Identification Number assigned to the carrier to make support payments agrees to the proper study area code for which support is eligible.

16. For the sample selected, identify any carriers receiving Safety Net Additive support and determine if support is consistent with the formula contained in section 36.605(b) of the FCC's rules.

17. Ensure that all carriers receiving Safety Net Additive support have filed a certification that the study area has realized growth in end of period Telecommunications Plant in Service (TPIS), on a per-line basis, of at least 14% more than the study area's TPIS per-line investment at the end of the prior period. Note that the certification was received on or about the time of the carriers' annual or quarterly data submission.

High Cost Model Support

18. Review and document in the workpapers the controls USAC and its vendors have to ensure that input data items are complete and reasonable. Through observation, determine that only authorized input is accepted for processing.

19. Review and document in the workpapers the controls USAC and its vendors have to ensure that only one data submission is processed for each cost company. Through observation, determine that no changes are made to an ETCs high cost data submission without the proper documentation and authorization.

20. Review and document in the workpapers the controls USAC and its vendors have to ensure the ETCs high cost data is reasonable in relation to the ETCs historical data and expected results.

21. Review and document in the workpapers the controls USAC and its vendors have to ensure a post-processing review of high cost data is performed in accordance with management criteria. Through observation, determine that a post-processing review is performed.

22. For incumbent carriers receiving HCM, recalculate the distribution of forward-looking support in accordance with applicable FCC rules. Document the state in which the selected carriers serve. Ensure each state is qualified to receive HCM.

23. For the incumbent carriers selected, identify their competitors. Obtain the effective date of the competitor's ETC designation order to ascertain whether the carrier was designated as an ETC prior to receiving support. Obtain the annual state certification for timeliness (due 10/1/02). Document whether the competitor's ETC designation order is granted at a level different than the incumbent.

24. For one incumbent ETC and one of its competitors : a) Obtain from NECA (in part in its role as USAC's vendor and in part in its role under Part 36 of the FCC's rules) line count data submitted as of December 31, 2002, that was filed on July 31, 2003 and support payment disbursed 3rd Quarter 2003.

25. With the assistance of the vendor, walk through the calculation of support per the model for the incumbent and competitor selected. Agree that this calculation is in compliance with applicable FCC rules. Trace and agree any data which is manually entered by the vendor (e.g., that which is not a data feed) to source documentation. By performing this process, agree that the support amount is correct. Compare recalculation to NECA detailed disbursement authorization. Document differences.

    - Ensure that disbursements were calculated using both the Forward-Looking Cost Model and the Hold Harmless methodology. Amount calculated by the Hold Harmless method, excluding LTS, should be reduced by $3.00 annually in the average monthly per-line support. Note that the disbursement to the carriers was at the higher of these two amounts.

26. Randomly select any month within the 3rd Quarter 2003. Inspect the disbursement authorization for adequate review. .

    - Inspect documentation to ascertain whether the Service Provider Identification Number assigned to the carrier to make support payments agrees to the proper study area code for which support is eligible.

Long Term Support

27. Review and document in the workpapers the controls USAC and its vendors have to ensure that input data items are complete and reasonable. Through inquiry, determine that only authorized input is accepted for processing.

28. Review and document in the workpapers the controls USAC and its vendors have to ensure that only one data submission is processed for each cost company. Through inquiry, determine that no changes are made to an ETCs high cost data submission without the proper documentation and authorization.

29. Review and document in the workpapers the controls USAC and its vendors have to ensure the ETCs high cost data is reasonable in relation to the ETCs historical data and expected results.

30. Review and document in the workpapers the controls USAC and its vendors have to ensure a post-processing review of high cost data is performed in accordance with management criteria. Through inquiry, determine that a post-processing review is performed.

31. For incumbent carriers receiving LTS, ensure that the carrier participates in NECA's common line pool.

32. For the incumbent carriers selected, identify their competitors. Obtain the effective date of the competitor's ETC designation order to ascertain whether the carrier was designated as an ETC prior to receiving support. Obtain the annual self certification for timeliness (due 6/30/03). Document whether the competitor's ETC designation order is granted at a level different than the incumbent.

33. Recalculate the incumbent and competitor's support received in the 3rd Quarter 2003 to ensure that it is in accordance with applicable FCC rules. Ensure the carrier's support amount is computed based on the disaggregation path selected. Compare recalculation to NECA detailed disbursement authorization. Document differences.

34. Randomly select any month within the 3rd Quarter 2003. Inspect the disbursement authorization for adequate review.

    a. Inspect documentation to ascertain whether the Service Provider Identification Number assigned to the carrier to make support payments agrees to the proper study area code for which support is eligible.

Local Switching Support

35. Review and document in the workpapers the controls USAC and its vendors have to ensure that input data items are complete and reasonable. Through inquiry, determine that only authorized input is accepted for processing.

36. Review and document in the workpapers the controls USAC and its vendors have to ensure that only one data submission is processed for each cost company. Through inquiry, determine that no changes are made to an ETCs high cost data submission without the proper documentation and authorization.

37. Review and document in the workpapers the controls USAC and its vendors have to ensure the ETCs high cost data is reasonable in relation to the ETCs historical data and expected results.

38. Review and document in the workpapers the controls USAC and its vendors have to ensure a post-processing review of high cost data is performed in accordance with management criteria. Through inquiry, determine that a post-processing review is performed.

39. For incumbent carriers receiving LSS, ensure that the carrier is rural by confirming carrier's rural classification on file with the FCC and that it has no more than 50,000 access lines at December 31, 2002.

40. For incumbent carriers, inspect the 2001 LSS forms or the data submitted by NECA (for members of NECA's traffic-sensitive pool) for the projected line counts submitted October 1, 2000 and compare it to the true-up forms filed December 31, 2002. Verify that true-ups were properly processed 15 months after the end of the calendar year.

41. For the incumbent carriers selected, identify their competitors. Obtain the effective date of the competitor's ETC designation order to ascertain whether the carrier was designated as an ETC prior to receiving support. Obtain the annual state certification for timeliness (due 10/1/02). Document whether the competitor's ETC designation order is granted at a level different than the incumbent.

42. For incumbent ETCs: a) Obtain from NECA (in its role as USAC's vendor) line count data projected as of December 31, 2002, that was filed on October 1, 2002 and support payment disbursed 2nd Quarter 2003.

43. For competitive ETCs: a) Obtain from NECA (in its role as USAC's vendor) line count data submitted as of June 30, 2002, that was filed on December 30, 2002 and support payment disbursed 2nd Quarter 2003.

44. Recalculate the incumbent and competitive ETCs' support received in the 2nd Quarter 2003 is in accordance with applicable FCC rules. Ensure the carriers' support amounts are computed based on the disaggregation path selected. Compare recalculation to NECA detailed disbursement authorization. Document differences.

45. Randomly select any month within the 2nd Quarter 2003. Inspect the disbursement authorization for adequate review.

    - Inspect documentation to ascertain whether the Service Provider Identification Number assigned to the carrier to make support payments agrees to the proper study area code for which support is eligible.

46. Obtain a report of true-up adjustments made in April 2003. Randomly select 5 carriers and perform the following:

    - Obtain the revised data submission.
    - Recalculate adjusted support received. Document differences.
    - Examine the disbursement authorization for adequate review and ensure payment was distributed properly.

Interstate Access Support

47. Review and document in the workpapers the controls USAC and its vendors have to ensure that input data items are complete and reasonable. Through inquiry, determine that only authorized input is accepted for processing.

48. Review and document in the workpapers the controls USAC and its vendors have to ensure that only one data submission is processed for each cost company. Through inquiry, determine that no changes are made to an ETCs high cost data submission without the proper documentation and authorization.

49. Review and document in the workpapers the controls USAC and its vendors have to ensure the ETCs high cost data is reasonable in relation to the ETCs historical data and expected results.

50. Review and document in the workpapers the controls USAC and its vendors have to ensure a post-processing review of high cost data is performed in accordance with management criteria. Through inquiry, determine that a post-processing review is performed.

51. For carriers receiving IAS, obtain carrier's 2002 Common Line Marketing Transitional (CMT) revenue amount submitted to NECA (in its role as USAC's vendor).

52. For the incumbent carriers selected, identify their competitors. Obtain the effective date of the competitor's ETC designation order to ascertain whether the carrier was designated as an ETC prior to receiving support. Obtain the annual self certification for timeliness (due 6/30/02). Document whether the competitor's ETC designation order is granted at a level different than the incumbent.

53. For both incumbent and competitive ETCs receiving IAS: a) Obtain from NECA (in its role as USAC's vendor) line count data submitted for the period ending September 30, 2002, that was filed by December 31, 2002 and support payment disbursed 1st Quarter 2003.

54. Recalculate the incumbent and competitive ETCs' support received in the 1st Quarter 2003 to ensure that it is in accordance with applicable FCC rules. Compare recalculation to NECA detailed disbursement authorization. Document differences.

55. Randomly select any month within the 1st Quarter 2003. Inspect the disbursement authorization for adequate review.

    - Inspect documentation to ascertain whether the Service Provider Identification Number assigned to the carrier to make support payments agrees to the proper study area code for which support is eligible.

Interstate Common Line Support

56. Review and document in the workpapers the controls USAC and its vendors have to ensure that input data items are complete and reasonable. Through inquiry, determine that only authorized input is accepted for processing.

57. Review and document in the workpapers the controls USAC and its vendors have to ensure that only one data submission is processed for each cost company. Through inquiry, determine that no changes are made to an ETCs high cost data submission without the proper documentation and authorization.

58. Review and document in the workpapers the controls USAC and its vendors have to ensure the ETCs high cost data is reasonable in relation to the ETCs historical data and expected results.

59. Review and document in the workpapers the controls USAC and its vendors have to ensure a post-processing review of high cost data is performed in accordance with management criteria. Through inquiry, determine that a post-processing review is performed.

60. For carriers receiving ICLS, review revenue data covering July 1, 2002 to June 30, 2003 for reasonableness.

61. For the incumbent carriers selected, identify their competitors. Obtain the effective date of the competitor's ETC designation order to ascertain whether the carrier was designated as an ETC prior to receiving support. Obtain the annual self certification for timeliness (due 6/30/02). Document whether the competitor's ETC designation order is granted at a level different than the incumbent.

62. For incumbent ETCs receiving ICLS: a) Obtain from Rhoads & Sinon (in its role as USAC's vendor) line count data submitted as of December 31, 2001, that was filed by July 31, 2002 for support payment disbursed 2nd Quarter 2003.

63. For competitive ETCs receiving ICLS: a) Obtain from Rhoads & Sinon (in its role as USAC's vendor) line count data submitted as of June 30, 2002, that was filed by December 30, 2002 for support payment disbursed 2nd Quarter 2003.

64. Recalculate the incumbent and competitive ETCs' support received in the 2nd Quarter 2003 is in accordance with applicable FCC rules. Ensure the carrier's support amount is computed based on the disaggregation path selected. Compare recalculation to NECA detailed disbursement authorization. Document differences.

65. Randomly select any month within the 2nd Quarter 2003. Inspect the disbursement authorization for adequate review.

    - Inspect documentation to ascertain whether the Service Provider Identification Number assigned to the carrier to make support payments agrees to the proper study area code for which support is eligible.

Low Income Support Mechanism

Background

Effective January 1, 1998, the low-income mechanism was created from the former Lifeline Assistance and Lifeline Connection Assistance Mechanisms in order to achieve the goal of delivery of affordable telecommunication services to all Americans including low-income consumers. The revised mechanisms provides assistance to consumers in all states even if their local exchange carrier had not previously offered this support. All ETCs, as defined by the FCC and certified by each state's Public Utility Commission or the FCC, are eligible to receive reimbursement from USAC for the discounts that they give to low-income consumers.

There are three components in the low-income mechanism, Lifeline, Link-Up, and Toll Limitation Services (TLS). Lifeline reduces qualifying consumers' recurring monthly local service charges. Link Up provides federal support to reduce eligible consumers' initial connection charges by up to one half, and provides support for carriers with deferred payment plans. The monthly minimum federal Lifeline discount available consists of the tariffed rate for the end user common line charge for the primary residential line. This rate will increase every July 1 until 2003 (See Section 69.104 and 69.152). Additional federal lifeline discounts up to a maximum of $3.50 per month per primary residential line are available if the carrier certifies that it will pass the full discount to the low-income consumer and/or the state has its own Lifeline support (See Section 54.403). In addition, effective October 1, 2000, additional support of up to $25 per month is available for local phone service for income-eligible members on federally recognized Indian tribal lands.

Link-Up helps low income subscribers initiate telephone service by paying half of the initial installation charge up to $30.00, and provides support for the carriers that have a deferred payment plan by paying the interest on any balance up to $200 for up to one year. Effective October 1, 2000, additional Link-Up support of up to $70 is available for installation charges associated with local phone service for income-eligible members living on reservations   Toll Limitation Support   provides support for the incremental cost associated with either toll blocking or toll control, both of which limit low-income consumer's long distance calls. Carriers should maintain records to support the amounts requested under the Low Income support mechanism and to verify that the amounts requested have been applied to reduce charges to low-income consumers. Low-income consumers must meet one of the qualifications as described in Section 54.409. Carriers shall make available the low income Lifeline support and shall publicize its availability.

Company Procedures

In order for an ETC to receive reimbursement for the above-described discounts given to low income consumers, it must submit an FCC Form 497 to USAC. NECA is the vendor under contract to USAC to provide support for administering the low-income support mechanism. The forms are reviewed for accuracy and completeness at one of the NECA regions or at NECA headquarters and then the information is entered into the Oracle based system. Only eligible carriers' forms are entered into the system. On the sixth to the last workday of the month, the system is locked for the regions and they can no longer input information. USAC's Low Income staff can input up until the last day of the month when there is a self -imposed lock, and can input again the next day. The system is unlocked for the regions on the third workday of the month.

As of January 1, 2000, the USAC Board authorized the use of monthly projections with quarterly true-ups to be used for distribution of low-income support mechanisms. After the close of each quarter, the projected support mechanism credits distributed for that quarter is trued-up to actual with any required adjustment to be made in the second month following the close of the quarter.

Objectives

To determine whether:

1. The FCC Form 497s that USAC receives from local exchange carriers and CETCs are reviewed for accuracy and processed according to FCC guidelines and USAC procedures.

2. The data downloaded to USAC's disbursement team is accurate, authorized, and complete.

Procedures

1. Obtain and document in the workpapers the policies and procedures in place used by NECA/USAC for administering the low income support mechanism.

2. In order to ensure that the Form 497s for July 2003 are submitted to USAC from the local exchange carriers and CETCs are reviewed for errors, omissions, mathematical errors, accuracy and reasonableness, and input into the system correctly, obtain the Low Income Disbursement Report for the nine month period ended September 30, 2003, and select a representative random sample 45 of carriers and perform the following (ensure all carrier types are represented in the sample):

    - Clerically test the Disbursement report that corresponds to the sample period.
    - Trace each disbursed amount (Lifeline, Link-up, and Toll Limitation Services) to the Form 497 submitted to USAC or NECA by the carrier.
    - Clerically test the forms and review for completeness.

- Ensure that a certification statement, signed by an officer of the company accompanies the forms.
- Trace each monthly federal lifeline support amount claimed per subscriber to the low-income state tables detailing the range of data acceptable for this line item for each state and ensure the amount is within range. Support for eligible residents of Tribal lands can be up to an additional $25.00 per month.
- Ensure each Link Up charges waived per connection line item does not exceed the FCC limit of one half of the connection charge or $30. For eligible residents of Tribal lands this amount may be increased by $70.00.
- Ensure that each local exchange carrier and CETC is an Eligible Telecommunications Carrier (ETC) by tracing the company to the Eligible Carrier Status Database.

3. In order to ensure that the monthly disbursements from the Low Income Mechanism are properly authorized and accurate, obtain the Disbursement Authorization Reports, for the month of September 2003 and perform the following:

   a. Obtain the Low Income ETC Monthly Projection Algorithm for August 2003 for the carriers selected and prove the arithmetic accuracy of the algorithm.
   b. Obtain the monthly projections were reasonable and ensure the projections were trued-up properly for the carriers selected in AUP step 2.
   c. Trace the trued-up disbursement amounts to the Low Income Database.
   d. Trace the Accounting totals to an accounts payable control report, and individual payments for selected carriers to check copies or transfers and a bank statement.

4. Inquire and test controls that ensure one and only one data collection form is processed for each active ETC on the Exchange Carrier Master File (ECMF). Obtain and document in the workpapers the policies and procedures used to prevent duplication disbursements. From each sampled item in procedure 2 determine whether a duplication of payment exists.

5. Review projections and note whether any carrier received disbursements based on projections more than 6 months old.

Rural Health Care Support Mechanism

Background

The Rural Health Care Division ("RHCD") of USAC administers the universal service support mechanism for eligible rural health care providers. Auditors should examine RHCD operations to determine, among other things, whether they are properly administering the universal service support mechanisms to prevent fraud, waste, and abuse. Only telecommunications service providers that are common carriers are (CCSPs) authorized to receive payment on their request. Participants must have filed a form 498 in order to be eligible to receive payments.

Each month, payments to service providers are netted against the amounts billed to the CCSPs by USAC for their obligation to the USF. This netting process continues each month creating either a receivable for USAC for a debit balance or a payable for USAC for a credit balance. This process continues throughout the year until the projected or actual total annual contribution amount is exceeded. USAC will continue to bill the CCSP if there is a debit balance, and will submit a payment to them when a year-end credit balance is projected or realized. Payments to companies that are considered de minimis are not netted; these service providers receive the payment via check.

The amount requested for reimbursement by the service providers is applied to discount the bill for services rendered to qualified Rural Health Care providers, or the service provider may (optionally) issue a check to a health care provider for any past due monthly discounts. (Typically, applicants do not complete their paperwork or receive funding commitments until after the funding year has started, and they may be eligible for past month discounts which they already paid in full.)

All telecommunications services billed on a non-usage sensitive basis are eligible for support under the Rural Health Care Support Mechanism (the "RHCSM" or the "RHC mechanism") with no bandwidth or service quantity limits. Applicants may choose to have the RHCD calculate their support by either the difference between the monthly urban rate and the rural rate for telecommunications service and installation charges, or support may be based on the number of miles for which the applicants charged by their service provider. In addition, the RHC mechanism provides support to eligible health care providers that cannot obtain toll-free access to the Internet. This support is limited to the lower of 30 access hours or $180 per month. (However, in the last two program years, no rural health care providers have applied under this provision, presumably because toll-free Internet access has become ubiquitous.)

Requirements

The Rural Health Care Committee of the USAC Board of Directors and the management of USAC have identified nine support mechanism and internal control requirements that define the scope of this agreed-upon procedures audit plan. These requirements are:

1. Applications for funding received during the window are identified and processed in accordance with the FCC's orders and regulations.

2. Only eligible entities, as set forth in 47 CFR 54.601 (a) and (b), receive support from the Universal Service Fund.

3. Rural Health Care support is committed only for eligible services as defined in 47 CFR 54.601(c).

4. Rural Health Care support is available to telecommunications carriers as defined in 47 CFR 54.5.

5. Rural Health Care support is approved for each applicant in accordance with the requirements contained in 47 CFR 54.603 through 54.617.

6. Rural Health Care support is committed only to eligible health care providers that comply with the competitive bidding requirements contained in 47 CFR 54.603.

7. Telecommunications carriers' invoices are authorized for reimbursement in a timely fashion. Such invoices are authorized only for approved applications and in amounts no greater than the funding commitments made by USAC.

8. USAC performs functions required by Part 54, including: (a) administering the application process for rural health care providers; (b) creating and maintaining a web site that, among other things, posts applications for service from rural health care providers; (c) performs outreach and public education functions; (d) monitors demand for the purpose of determining when the approved funding cap for the Rural Health Care Support Mechanism has been reached; and, (e) submits quarterly demand and administrative expense projections as required by FCC regulations.

9. USAC makes funding commitments in accordance with available funds as approved by the FCC.

Objectives:

1. To evaluate the effectiveness of USAC's implementation of controls for compliance with the above requirements.

2. To ascertain whether changes to the design of the internal controls are needed in light of the evaluation of USAC's implementation of the controls.

Procedures

General

1. Meet with the management of the Rural Health Care Division (which should include USAC and NECA management) to obtain understanding of agreed upon procedure work, and to identify and understand the critical processes to be documented and reviewed.

   a. Perform preliminary, high-level walkthroughs of the processes involved and prepare process maps.
   b. Obtain and include in the workpapers the organizational charts for Rural Health Care functions including functions that are outsourced. These charts should list the employees and their titles.

Understanding the Business

2. To gain a more detailed understanding of each of the relevant RHCSM processes, perform the following:

   a. Meet with process owners for each identified process pertaining to the receipt, approval and processing of applications and invoices and other relevant processes pertaining to overall administration of the RHC Mechanism.
   b. Inquire and document (either narrative or flowchart) the control procedures and process flows for each applicable component process contained within the following activities and applicable FCC forms:

      - Application process

        – FCC Form 465 (Description of Services Requested and Certification Form);
        – FCC Form 466 (Funding Request and Certification Form);
        – FCC Form 467 (Receipt of Service Confirmation Form)
        – FCC Form 468 (Telecommunications Service Provider Form).

      - Appeals

      - Fund Management and FCC Reporting (including FCC rule changes review and implementation)

      - Invoices and support payments (credits) processing for RHC Manual Telecommunications Carrier Invoices

3. Obtain and document in the workpapers the written USAC policies and procedures. Compare the written policies to FCC's Universal Service Rules and Regulations for compliance and comment as to whether the written policies set forth the general framework for compliance with the Universal Service Rules and Regulations, as required.

Application Sample Section:

4. For Funding Year 2003, obtain a data file of all Year 2003 applications as of the last funding wave prior to the selection date for the year ended or subsequent to the year ended December 31, 2003 and select applications for detailed review.

5. Sort and total the number and cumulative funding amount of the applications contained in the Year 2003 data file and compare and agree the totals to the system database totals.

6. Identify and extract the top 10 applications with the highest dollar value for review and verification. Randomly select an additional 15 Year 2003 applications from the remaining population for additional review and verification.

7. For each of the Year 2003 applications selected, obtain a printed copy of the FCC Forms 465, 466, 467, 468, and agree the information contained therein to the corresponding information contained within the Year 2003 data file.

Application Process

8. Compare and agree the service and funding amount per each application selected to the approved funding amount per the corresponding Funding Commitment Letter.

9. To ensure that FCC Forms 465s received were reviewed timely for errors and omissions, calculate for each of the selected applications, the number of days between the receipt date of the corresponding Form 465 to the posting date per the corresponding health care provider ("HCP") posting letter. Verify that the sampled applications were posted within 5 days after clearing errors and omissions.

10. Review, test, and document in the workpapers the controls to ensure that USAC has made reasonable efforts to determine the eligibility of health care providers requesting support by performance of the following for each application selected:

    Recalculate and verify the Maximum Allowable Distance (“MAD”) using ‘Street Atlas 5.0’ or any other applicable resources. Re-calculate the MAD after the initial calculation has been made. If both calculations are the same or within two miles of each other, the MAD is considered to be correctly calculated. If the two calculations are within two miles of each other, the greater of the two is entered. When the initial MAD calculation is greater than 100 miles and the re-calculation is within a 3% margin of error of the initial one, the MAD is considered correctly calculated and the greater of the two is entered.*

    a. *Due to the sensitivity of the mapping software, results may vary by mapping user, therefore, a variance as described above is necessary.

    b. Research the USAC Intranet to determine whether the applicant is located in an eligible rural area. If any exceptions are noted inquire of management.

11. Review, test, and document in the workpapers the controls in place to determine the eligibility of health care providers pursuant to the criteria in Section 54.601, such as public or not for profit entity. For Funding Year 2003 selected applications, verify completion of the applicant self-certification that they are eligible pursuant to the criteria set forth in Section 54.601.

12. Review, test, and document in the workpapers the controls to ensure that USAC has verified that telecommunication carriers providing services under the RHC mechanism are on the Telco SPIN list of the RHCD. Simplified Invoice Database ("SID") System. (The SID SPIN list is an abstracted subset of USAC's Customer Database of common carriers. The RHCD does not maintain or verify carriers in USAC's Customer Database.) .

13. Review, test, and document in the workpapers the controls to ensure that health care providers receiving support adhered to competitive bidding requirements in accordance with FCC Rules and Regulations, as follows:

    a. Through inquiry and observation, determine that procedures were in place to document the date that the application was posted to the RHCSM web site (the "posting date"), which commences the 28-day Request for Proposal ("RFP") posting requirement.

    b. Review the RHCD policies and procedures pertaining to the verification of the application funding requests and the determination of the need for competitive bidding of existing, as opposed to new, services. Test compliance with the applicable requirements through inquiry, observation, and completion of the following steps (13 c through i) for each selected application.

    c. Verify that an original signed copy of the corresponding Form 465 was received and retained in the file prior to posting the application to the web site.

    d. Agree the date in the Posting Letter to the applicant to the Form 465 posting date in "Search Postings" on the RHCD website, and trace to the "Allowable Contract Selection Date" (ASCD) noted on the Packet Review Checklist is 29 days after that date.

    e. For applications with existing telecommunication carrier contracts, review the supporting contract for bid exemption authorization.

    f. For all other applications, verify that contracts and/or Form 466 were not signed prior to completion of the 28-day competitive bidding period

    g. Ensure completion of the applicable Form 466 Block 8: Certification.

    h. Ensure the timely posting of applications for services by eligible health care providers to the USAC web site, by comparing the approval date on the selected application Form 465 Supervisor Checklist to the date indicated on the HCP Posting Letters.

    i. Verify that the support start date used to generate the Support Schedule is the latter of the Service Start Date given by the customer on Form 467, or the Eligible Support Start Date given on the FCL. If the Service Start Date on Form 467 is later than the Eligible Support Start Date on the FCL, verify that the customer was contacted, to notify them that the amount of support would be reduced in accordance with the shorter support period.

14. Document the controls in the workpapers and test controls to ensure the method used to calculate support is in accordance with FCC Rules and Regulations, as follows:

    a. For the five highest dollar amounts committed for funding, recalculate and agree the support amount per the applicable Form 468 internal worksheets to ascertain that the calculation was performed in accordance with FCC Requirements.

b. For each of the five applications selected in Step a above, agree the support amount as indicated on the supporting Form 468 internal worksheet to the approved Funding Commitment Letter.

15. Note the type of service requested and approved in each of the selected applications, and trace the approved (telecommunication) services by agreement to the eligible services listed on the RHCSM web site.

Telecommunication Carrier Invoices

16. Review, test, and document the controls in the workpapers pertaining to the receipt and processing of telecommunication carrier invoices and support payments (credits) applied, document and test, through inquiry, observation, and performance of Steps 20 through 22 below, the procedures pertaining to the receipt and payment of telecommunication carrier invoices.

17. Obtain a data file from RHCD of specified information (i.e., work order number, telecommunications carrier name, service provider identification number ("SPIN"), invoice number and amount) pertaining to all Funding Year 2002 invoices (and invoice line items) processed from the first date of invoice processing through the test date – November 22, 2003. Use the information contained within the data file to select a sample of invoice line items for detailed review and testing.

18. Use computer assisted audit techniques (CAATs) to sort and validate the number of invoice line items and total dollar value of Year 2002 invoices contained within the data file and agree them to the system database totals, noting any exceptions.

19. Determine approximate sample size using a confidence level of 90% and a planned precision rate of 5% with no expected deviations. Randomly select 45 invoice line items for review using computer software that does not consider population skewness.

20. For each of the invoice line items selected in Step 19, obtain and agree the telecommunication carrier name and SPIN, per the telecommunication carrier invoice and the approved HCP Funding Commitment Letter to the data file.

21. For the invoice line items selected in Step 19, review and test controls to ensure that invoices from telecommunications carrier agree to, and do not exceed, forecasted support amounts as follows:

    a. Compare the month and amount of the approved line item selected to the corresponding HCP Application Support Schedule and note that the line item amount does not exceed the approved "support amount" for the same month per the support schedule.

    b. Trace and agree the line item amount to the corresponding approved line item amount in the Simplified Invoice Database ("SID").

    c. Obtain and review the corresponding Invoice Review Checklist for completeness of information required.

22. For each of the selected telecommunication carrier invoices related to the line items selected in Step 19 above, perform the following:

    a. Agree the Billing Account Number/ Billing Telephone Number ("BTN") to the HCP Support Schedule.

b. Compare the invoice header and line item information to the corresponding information in the SID.

c. Agree the invoice amount per the RHCD Manual Telecommunications Carrier Invoice to the RHCD Invoice Reconciliation.

d. Add and agree the total line items included on the invoice to the invoice total.

e. identify any line items denied on the invoices selected and verify the propriety of each denial identified in accordance with FCC requirements, by review of the denial reason code indicated on the supporting Invoice Review Checklist.

f. Ensure that invoices were approved for payment by agreement to the Approved Support File sent to USAC.

g. Verify that the invoice dollar amounts submitted to the Universal Service Payment Support ("USPS") group for payment processing agree to amounts paid to telecommunication carriers by agreement to the corresponding credit posted to the telecommunication carrier's Universal Service account.

23. Gain an understanding of, and document in the workpapers, the process by which RHC processes and approves the return of funds from service providers, including the restoration of funding caps and the role of the USPS group in the receipt and recording of returned funds.

Fund Management/Performance in Accordance with Available Funds

24. Review, test, and document in the workpapers the controls to ensure that the support mechanism funding cap is not exceeded.

25. RHCD is required to submit quarterly projections of projected demand to the FCC. Obtain and document in the workpapers the processes and procedures in place as to how the demand projections are determined and ascertain that a method is used to determine required demand projections.

Outreach, Public Education, and Web Site

26. Through inquiry and observation, document in the workpapers the outreach and public education efforts to date and plans for the future. Also, inquire as to and document the existence and contents of the Outreach Web site.

Rules Changes

27. Gain an understanding of, and document in the workpapers, the process by which RHCD ensures that all FCC rule changes are identified, documented, and incorporated into the RHCSM funding process.

Appeals

28. Gain an understanding of, and document in the workpapers, the process by which USAC handles appeals from applicants pertaining to fund commitment adjustments and funding request denials.

29. Randomly select 5 appeals from the appeals log for both Funding Year 2002 and 2003, and perform the following:

a. Obtain the application folders for the sample selected above and agree the HCP name and appeal date from the appeals log to the folder.

b. Compare the date received on the selected appeal correspondences to the date of the Fund Commitment Letter and verify that the appeals were received within the 60-day appeal window (30 days if the appeal was submitted prior to September 11, 2001).

c. Document the reasons for the applicant's appeal and review the underlying documentation supporting the appeal to verify that appeals where approved or denied in accordance with FCC Support Mechanism guidelines (e.g., eligible services, eligible service providers, discount calculations, etc.).

Other

1. Inquire whether USAC or the Rural Health Care Committee has authorized any internal audits of RHCSM recipients (see Section 54.705(b)(1)(viii) during the calendar year under review (January 1, 2003 to December 31, 2003). If any internal audits have been conducted, obtain and review a copy of the report and note the period of the audit and the date the report was completed.

Schools and Libraries Support Mechanism

Background

The Schools and Libraries (S&L) Support Mechanism (the "S&L Mechanism" or the "SLSM") is designed to provide all commercially available telecommunications services, Internet access and related internal connections at discounted prices to all eligible schools and libraries based on the level of the economic need. The administration of the SLSM is outsourced to NECA in Whippany, New Jersey. NECA, in turn, has outsourced call center and data entry functions to Pearson Government Solutions (Pearson GS) located in Lawrence, Kansas. All paper applications and invoices are first received by Pearson GS, where data entry and problem resolution are performed. USAC and NECA in Whippany, New Jersey perform all of the remaining processing, monitoring, and funding activity. Auditors should review all operations to determine, among other things, whether they comply with the FCC Rules and Regulations and whether the S&L Support Mechanism is being administered in such a manner designed to minimize exposure to fraud, waste, and abuse. Only service providers that have submitted a completed Form 498 are authorized to receive payment on their request for the S&L Support Mechanism. There are two options for payment for service providers that participate in the SLSM: the netting or non-netting option. The netting option nets the amount billed by USAC to the service provider for the month against the approved amount for reimbursement of discounts for eligible service used for eligible purposes for eligible schools and libraries, thereby creating either a receivable for USAC (a debit balance) or a payable for USAC (a credit balance). A service provider who elects the netting option must continue under this option for the remainder of the calendar year. Only eligible telecommunication providers may participate in the netting option because they are the only service providers that must contribute to the universal service fund. USAC performs a quarterly review of service provider accounts and submits a payment to the service provider if the credit balance on their account exceeds that service provider's anticipated contributions for the remainder of the calendar year. Each month, the service providers that choose the non-netting option submit payment for the amount USAC bills them based on revenue amounts submitted on the Forms 499s. They, in turn, will receive a check or ACH wire transfer from USAC for qualifying requests for payment for discounts that they have given to schools and libraries (The Rules for the S&L Support Mechanism are contained in Section 54.500 through 54.520).

The Children's Internet Protection Act (CIPA) was signed into law December 21, 2000 and rules, coded in Section 54.520, implementing the statute are effective April 20, 2001. One of the following three options are available for compliance: (1) the entity has complied with the requirements of CIPA; (2) the entity is undertaking actions, including any necessary procurement procedures, to comply with the requirements of CIPA; or (3) CIPA does not apply to the entity because the entity is receiving discounts for

Telecommunications Services only. In order to receive discounts for internet access and internal connections services under the universal services support mechanism for funding years beginning on or after July 1, 2001:

1. Where services had commenced on or before October 28, 2001 and the Funding Commitment Decision Letter (FCDL) is postmarked on or before October 28, 2001 school and library authorities must certify compliance by October 28, 2001. If the applicant fails to comply with this requirement, the funding request service start date is adjusted to the postmark date of the Form 486 and the committed amount may be reduced.

2. If either the commencement of services (as indicated on Form 486) or the FCDL date is after October 28, 2001 date then the applicant must make the certification by the later of 120 days after the commencement of services or 120 days after the FCDL date, whichever is later. If the applicant fails to comply with this requirement the funding request service start date is adjusted to 120 days before the postmark date of the Form 486 and the amount committed may be reduced.

It should be noted that based a court decision dated 5/31/02 the filtering provision of the CIPA law was invalidated for public and private libraries. Applicants were advised that the required Form 486 and Form 479 CIPA certificates should be interpreted as certifying only to the enforceable provisions of the CIPA law. Procedures have been developed with the FCC to address instances where a library was disadvantaged by the CIPA certification requirements. The decision of the lower court was reversed by the U.S Supreme Court on appeal. The FCC suspended certain filtering requirements in response to the original decision on 6/28/02. The FCC issued revised guidance on July 24, 2003 in response to the decision by the U.S. Supreme Court and was effective August 14, 2003.

Objectives

The Schools and Libraries Committee of the USAC Board of Directors and the management of USAC have identified the following requirements to support the implementation of the Schools and Libraries Universal Service Support Mechanism:

1. Applications for funding received within the filing "window" are identified and processed in accordance with FCC orders and applicable rules (47 C.F.R. ¶ 54.507 (c).

2. Only eligible entities receive universal service support.

3. Eligible entities that receive discounts for Internet access and internal connections services must certify that the Children's Internet Safety Policy is being complied with pursuant to Section 54.520 as modified by any revised guidance in response to the decision by the U.S. Supreme Court.

4. Discount percentages are approved for each applicant in accordance with the criteria specified under the FCC's regulations 47 C.F.R. ¶ 54.505 (b).

5. Universal Service Fund Support is committed only for eligible services being used for eligible purposes as defined by the Act and the FCC 47 C.F.R. 54.504 etseq.

6. Vendor invoices are authorized for reimbursement in a timely fashion. Vendor invoices are authorized for eligible services only for approved applications and in an amount no greater than the funding commitment made by USAC.

7. Commitments are made in accordance with available funds as approved by the FCC.

8. To evaluate the effectiveness of USAC's implementation of controls for compliance with the above requirements.

9. To determine whether changes to internal controls are needed in light of the evaluation of USAC's implementation of the controls to achieve the above objectives.

Procedures:

General Procedures

1. Obtain and document in the workpapers policies and procedures for the schools and libraries support mechanism. Meet with management of the Schools and Libraries Division ("SLD") other members of the SLD team, including the contractor and subcontactor responsible for day-to-day operations, to gain an understanding of the relevant processes related to the overall administration of the SLSM. Obtain a list of key individuals from SLD management to assist in gaining the understanding of the process. In addition:

    a. Note the funding year covered.

    b. Perform preliminary, walkthroughs and prepare high-level process maps summarizing the key control points and procedures pertaining to the receipt and processing of SLSM applications and invoices.

    c. Obtain and review relevant SLD personnel lists and organization charts, as well as those pertaining to functions outsourced to NECA and Pearson Government Solutions ("Pearson GS") in Lawrence, Kansas.

Understanding the Business

2. Gain an understanding of each of the relevant processes pertaining to the receipt and approval of applications, as well as the receipt, approval and payment of Billed Entity Application Reimbursements ("BEAR") or Service Provider Invoices ("SPI") for which funding has been committed through the S&L Support Mechanism funding process, and perform the following:

    a. Meet with the process owners for each relevant function or business process and discuss with them the controls and procedures pertaining to the overall administration of the S&L Support Mechanism which includes the receipt, approval and processing of applications, BEAR or SPI invoices, and other applicable S&L Support Mechanism related processes.

    b. Perform detailed walkthroughs of each relevant process and prepare narrative memos and/or process maps documenting the control procedures and process flows for each applicable component process contained within the following S&L Support Mechanism related activities and applicable FCC forms.

        - Application processes

            – FCC Form 470 (Schools and Libraries Universal Service - Description of Services Requested and Certification Form)
            – FCC Form 471 (Schools and Libraries Universal Service - Services Ordered and Certification Form)
            – Block 1 and Modification Process
            – Site identifier correction process
            – Service substitution process

- Appeals
- Commitment adjustments
- Recovery of erroneously disbursed funds
- Returned Funds
- Fund Management and FCC Reporting (including FCC rule change review and implementation)
- Invoice and support payments (credits) processing

– FCC Form 486 (Schools and Libraries Universal Service - Receipt of Service Confirmation Form)
– FCC Form 472 (Billed Entity Application Reimbursement ("BEAR") Form)
– FCC Form 474 (Service Provider Invoice ("SPI") Form)
– FCC Form 500 (Adjustment to funding Commitment and Modification to Receipt of Service confirmation Form)
– SPIN Changes
– Invoice and implementation deadline exception requests

c. Use the information obtained from the detailed walkthroughs to augment the agreed-upon procedures.

3. Obtain and review a copy of the written SLD policies and procedures. Discuss with management the a processes to monitor compliance with the FCC's Schools and Libraries Support Mechanism Rules and Regulations.

Controls Over Preliminary Application and Invoice Processing – Subcontractor (Pearson GS) Review

4. Visit the Pearson GS facility in Lawrence, Kansas and document and evaluate, through inquiry and observation, the control procedures and processes relating to the initial receipt and preliminary processing of applications and invoices, through performance of the following:

   a. Inquire and document the controls pertaining to the receipt of funding applications that ensure that applications postmarked during the filing "window" were appropriately identified, and segregated for funding purposes from applications postmarked outside the filing "window." The review should also include an evaluation of the effectiveness of the controls within the IT systems (which provide the primary control features in ensuring that funds are committed to "window" applicants first and that funding commitments are then made in the order in which the applications have been postmarked).

   b. Inquire and document the controls pertaining to the receipt of applications and invoices and the tracking procedures utilized by Pearson GS to ensure that all applications and invoices received were accounted for and processed in accordance with approved procedures.

Application Sample Selection

5. Obtain a data file from SLD of specified information (i.e., applicant name, application number, billed entity number, category, state, committed amount,) pertaining to Funding Year 2003 applications by FRN that have been committed as of the selection date November 10, 2003. Use the information contained

within this "application" data file to select a random sample of applications for detailed review and testing.

6. Use CAATs to sort and total the number and cumulative commitment value of all of the applications contained within the application data files, and compare and agree the totals to the system database totals.

7. Summarize this file by application number. Sort data from highest to lowest application commitment amount. Identify and extract the top ten applications for review and verification. From the remaining population, determine approximate sample size using a confidence level of 90% and a planned precision rate of 5% with no expected deviations. Randomly select the applications for testing using computer software that does not consider population skewness.

8. Review the number and committed dollar value of approved applications processed from the sample selection date (per step 7 and step 8, above) through December 12, 2003 (the "stub period"). If the applications processed during this stub period are greater than 5% of the total applications processed for the year (either as a percentage of dollars or number of applications) then select an additional sample of (large dollar) applications (minimum 2) for review. If the remaining applications are less than 5% of the total processed for the year than no additional procedures will be performed with respect to the remaining applications.

9. Inquire of USAC SLD management, and through inquiry, observation, and execution of the following procedures, that the system is designed to recognize and identify for further follow-up and review, applications that did not meet certain pre-programmed criteria contained within the SLSM system.

10. Using the file requested in step 5., above, use CAATs to extract all FRNs pertaining to the selected applications (step 7.) and agree the committed total funding value of the extracted FRNs to the total committed funding value of the selected applications.

11. Select for review a sample of FRNs from the total FRNs associated with the selected applications, as follows:

    a. For each selected application, select the FRN with the highest dollar committed value for that application.

    b. Use computer software that does not consider population skewness to randomly select a sample of additional approved FRNs from the remaining FRNs associated with the selected applications.

12. Obtain from SLD a data file of the application Block 4 (Discount Calculation Worksheet) data to use for testing. Ensure the completeness of the Block 4 data file by agreeing the total number of records contained in the data file to the total number of records contained in the SLD Oracle system.

Ensuring that only Eligible Entities Receive Program Support

13. To ensure only eligible schools and libraries obtain funding through the S&L Support Mechanism and that the schools and libraries meet the definition of eligibility pursuant to applicable FCC regulations, obtain and document in the workpapers the PIA manual supporting this objective to ensure compliance with the applicable procedures contained therein through inquiry, observation and completion of Steps 14 through 17 below.

14. Obtain a data file of all of the information contained within the Customer Master ("CMS") database, maintained by SLD. This database includes information regarding the number of students meeting the

income requirements to be eligible to participate in the National School Lunch Program (NSLP) and the discount percentages used for schools using an method other than the NSLP. Note the completeness of the CMS data file by agreement of the number of records in the CMS data file to the number of records in the CMS system database.

15. Using CAATs, compare and agree the entity name and number in the CMS database as of the date of the application approval to the Block 4 database. Identify and document any discrepancies. If there is a discrepancies ensure that a CMS update was submitted and is pending data entry.

16. Read the selected applications (from step 7 and 8) and supporting Simplified Tracking and Application Review System ("STARS") review notes to identify any applications in which commitment amounts have been modified. Expand the sample to ensure forty-five applications with modifications are included) and perform the following:

    a. Inquire of the rationale by which SLD determined the entity to be ineligible and note if documentation was maintained to support the decision. Documentation may consist of conversation notes. Written documentation is required only as specified in the PIA procedures manual.

    b. Agree the funding request and commitment amounts for each of the FRNs associated with the identified modified applications to the funding commitment display or Funding Commitment Decision Letter (FCDL).

    c. Recompute and agree the committed dollar amounts, as follows:

        i. If the dollars associated with the ineligible entity are identifiable, verify that the identified dollar amount was appropriately applied to reduce or deny the FRN; or

        ii. If the dollars associated with the ineligible entity are not identifiable, verify and recalculate the enrollment percentage applied to the FRN amount to verify the correctness of the dollar amounts applied to reduce or deny the FRN.

17. Inspect the following for each FRN associated with the identified modified application, identified per Step 16 above:

    a. For FRNs in which the dollar associated with ineligible entities were less than 30% of the total dollars requested for that FRN, note that the FRN was appropriately reduced by elimination of the dollar amounts associated with the ineligible entity;

    b. The balance of the FRN containing discounts for eligible entities will remain eligible to receive funding commitments;

    c. For FRNs in which the dollars associated with ineligible entities were greater than 30% of the total dollars requested for that FRN, note by comparison to the funding commitment display that the FRN was denied in its entirety;

    d. For FRNs in which the dollars associated with ineligible entities resulted in a potential modification amount of less than $50, note by comparison to the funding commitment display that no reduction was made to the FRN amount.

Discount Percentages Comply with FCC Criteria

18. Obtain a copy of the PIA manual and note that it contains procedure updates to ensure that in determining program eligibility USAC properly considers, in accordance with FCC regulations, the level of economic disadvantage of the school, school district, or school district where a library resides, and whether a school or library resides in an urban or rural location. Note compliance with the applicable procedures contained therein through inquiry, observation, and completion of Step 21 below.

19. Through inquiry, observation and completion of Step 21 below, review and validate that requests for discounts on telecommunications and Internet services received funding commitments as first priority followed by requests for internal connections as second priority.

    a. Use CAATs to ensure that internal connection FRNs in the data file obtained in step 11, above, with a discount percentage below the applicable approved funding threshold (80%) for the year, were denied due to the funding cap.

    b. Inspect and document procedure updates supporting this objective and inquire of management whether this process was followed.

20. Use the sample of selected applications (from step 11a) to ensure that (1) discount percentages comply with FCC criteria, and (2) in determining the discount percentage, SLD properly considered in accordance with FCC regulations, the level of economic disadvantage of the school, school district, or school district where a library operates, and whether a school or library operating in an urban or rural location perform the following for each selected application:

    a. Using the discount calculation formula for each entity included in the selected applications recalculate and agree the appropriate discount rate was used as indicated in the CMS data file.

    b. Obtain and document in the workpapers the procedures used by the SLD when it receives applications for service request and the applicant is using an alternate discount calculation other than the National School Lunch Program.

    c. Use CAATs to compare and agree the designation of each of the selected application entities as indicated in the CMS database as rural or urban based on, and in agreement with, information contained within the Block 4 data file.

    d. Select a sub-sample of entities (minimum 20) from the population of entities contained within the selected applications and agree the application of the correct discount percentage to the discount percentage applied from the SLD Discount Matrix.

Program Support is Committed Only for Eligible Services

21. Use the FRN sub-sample selected (from step 11a and 11b), above, to ensure that funding is committed only for eligible services, Eligible services are defined by the eligible service list published on the SLD web site. In order to prevent second priority requests for discounts from receiving first priority treatment, verify for each FRN selected that the FRN and the related discount that the applicant had identified, in accordance with approved procedures, as telecommunication services or Internet access but upon further examination by SLD are found to contain any requests for support for internal connections, are reclassified by SLD as internal connections as follows:

a. Review each of the selected FRNs and note that only the specific services as indicated on the eligible services list related to that FRN category were included.

b. Compare and agree the service and committed funding amount per each selected FRN to the approved service and committed funding amount per the corresponding FCDL or display (on-line version of the printed data contained in the Funding Commitment DecisionLetter).

c. Obtain the PIA review notes for each selected FRN, and note that the service category was appropriately classified or reclassified, as applicable.

d. Inspect the PIA manual supporting this objective and verify compliance with the applicable procedures contained therein through inquiry, observation, and completion of steps 21a and 21c above.

22. Inquire and document as to the procedures employed for updating and tracking changes made to the Eligible Services and Products ("ESP") database. Inspect through inquiry and review, that changes are captured and tracked in accordance with established procedures.

23. Inquire that training in the procedures were provided to PIA staff regarding eligible services and review the procedures required.

24. Review and document controls to ensure that where SLD has determined that certain services are conditionally eligible for funding, such services are used only for the purposes set forth by SLD in the eligible services matrix, and that the support mechanism funding is committed only for eligible services.

25. Read the PIA manual supporting these objectives and note compliance with the applicable procedures contained therein through inquiry, observation, and completion of Steps 22 through 24 above.

26. Inquire and test controls to ensure that: 1) FRNs, which upon examination by SLD are found to contain less than 30% of ineligible services are adjusted to eliminate the ineligible services from the funding request, and 2) FRNs, which upon examination by SLD are found to contain 30% or more ineligible services, are denied in their entirety. Perform the following:

a. Compare and agree the funding request and approved committed amounts for each of the selected FRNs to identify all FRNs (within the sample) which had been modified due to the elimination of ineligible services (if none are noted, an additional sample of modified FRNs will need to be selected and the selection process documented). For each modified FRN identified, compute the percentage change between the funding request and the committed amount and verify that the calculated variance is less than 30%. Verify that the FRN amount had been appropriately adjusted by comparison of the approved amount to the amount per the funding commitment display.

b. To test controls over FRNs which contained greater than 30% of ineligible services, and were denied, perform the following:

i. Use CAATs to extract all (denied) FRNs with a zero committed amount from the population of FRNs associated with the selected applications. Select a random sample of FRNs (20 minimum) and perform the following:

ii. For each of the denied FRNs selected as having been denied due to ineligible services, review the initial funding request and verify the ineligibility of requested service by comparison to the ESP database.

iii. Recalculate the percentage of the ineligible services compared to the total funds requested to verify that the ineligible services are greater than 30% of the requested funds.

c. Read the PIA manual supporting this objective, and verify compliance with the applicable procedures contained therein through inquiry, observation, and completion of steps 26 a and b above.

27. Inquire and document the Funding Year 2003 process for processing service substitutions.

    a. Select a minimum of ten approved service substitution applications (Form 471) and note that the letter request contained the appropriate information.

    b. Obtain the service substitution request and associated documentation and note that the substituted service or equipment did not result in an increase in price and is consistent with the original Form 470 posting, and Request for Proposal(s), if any.

    c. Perform steps 27.a. and b. above for any substitution applications selected as part of the initial (Application Process) application selection.

Child Information Protection Act Compliance

28. Inquire and document controls to ensure that the Year 2003 applicants have certified that they have complied with the requirements of the Child Information Protection Act ("CIPA") or that CIPA does not apply to them because they are receiving discounts for Telecommunications Services only.

29. For each application selected for testing, review the block certification on Form 486 (Receipt of Service Confirmation Form) verifying compliance with this procedure, and that no 2002 disbursements have been approved without the certification for the funding year2002. Note that certain exemptions to CIPA rules and procedures were granted for libraries based on a court order date of July 24, 2003 and effective date of August 14, 2003. Exemptions granted as a result of court order should not be considered a finding prior to the effect date.

Vendor Invoices

30. Obtain a data file from SLD of specified information (i.e., invoice applicant ID, FRN, application number, invoice type, billed entity number, SPIN, service provider name, status of payment, total undiscounted amount and approved (discounted) payment amount, date received and invoice and USAC sent dates) pertaining to all invoices processed in 2003. Use CAATs to select a sample of invoice line items and test, as follows:

    a. Use CAATs to extract all the negative (credit invoice) line items.

    b. Sort data from the highest to the lowest approved payment amount. Identify and extract the top five dollar value invoice line items for detailed testing.

    c. Determine approximate sample size using a confidence level of 90% and a planned precision rate of 5% with no expected deviations. Randomly select the additional invoices for testing from the remaining population of invoice line items using computer software that does not consider population skewness.

31. For each of selected invoice line item manually submitted on paper (as opposed to electronic or online), obtain the corresponding BEAR or SPI, and agree the invoice dollar amount, FRNs, service provider

name, SPIN, and Application Number per the invoice data file to the invoice to ensure accuracy and completeness.

32. Agree the invoice line item dollar amount approved for payment, per the SLD Invoice Tracking System or ISTARS, as applicable, to the USAC Remittance Statements created by the approved payment file sent to billing, collections, and disbursements by SLD.

33. Obtain all data files for invoices processed in 2003 and related data through December 12, 2003. Use CAATs to sort the number of records and the total dollar value (as applicable) contained within each of the data files listed below, and agree them to the corresponding system database totals, regardless of the fund year.

    a. All funding commitments processed in 2003 by FRN (the "Commitment data file");

    b. All of the Invoice Approved Payment Data by FRN (the "Invoice Payment data file");

    c. All Form 486 Data processed in 2003 (the "Form 486 data file");

    d. All Form 500 Data processed in 2003 (the "Form 500 data file").

34. Use CAATs to verify, on an FRN basis, that the sum of the approved (discounted) payment amount, per the Invoice Payment data file, did not exceed the approved funding commitment, per the Commitment data file. Verify that any or that any excess payment is properly recorded in the COMAD database or the funds were returned.

35. Use CAATs to extract all the FRNs with a positive approved payment amount from the Invoice data file and verify that a Form 486 was submitted, by comparison to the Form 486 data file.

36. Use CAATs to verify, using the Form 500 data file, that all FRNs with an approved payment amount greater than zero, per the Invoice Payment data file, were not cancelled on a Form 500 or that any excess payment is properly recorded in the COMAD database.

37. Use CAATs to calculate the discount percentage for each FRN, per the Invoice Payment data file, and verify that this discount was not greater than $3 over the approved corresponding FRN discount percentage, per the Commitment data file and other approved support.

38. Use CAATs to note that all FRNs with approved payment amounts, per the Invoice Payment data file, were listed as "Funded in Full," per the Commitment data file.

39. Gain an understanding and validate the PIA manual function supporting the automated control system for a selected number of batch processing error codes. Perform a walk through of the PIA manual process followed to resolve such error codes, from the selected FRN sample from steps 11a and b. Review all documentation in the internal tracking system or ISTARS, as applicable, as well as documentation received from third parties.

40. Inquire and document in the workpapers the controls to ensure ad hoc changes in service provider selections (SPIN changes) include applicant certification that (1) the SPIN change is allowed under its state and local procurement rules, (2) the SPIN change is allowable under the terms of the contract between the applicant and its original service provider, and (3) the applicant has notified its original service provider of its intent to change service providers. This does not include global SPIN changes, corrective SPIN changes, or changes made as part of the RAL process.

a. Inquire and test controls to ensure the amount of funding available for the new service provider is limited to the amount committed on that FRN less the amount paid to the original service provider;

b. Inquire and test controls to ensure USAC does not make additional payments on the FRN until the SPIN change is reviewed and either (1) approved and the SPIN is changed or (2) denied.

41. Inquire of management and document in the workpapers the controls instituted to prevent vendors from being paid twice for the same invoice.

42. Select an additional sample of invoice line items (minimum ten) to test for the period from the selection date through December 12, 2003, and perform the following alternate procedures for the additional invoice line items selected:

    a. Ensure, by comparison to the funding commitment display, that the invoice dollar amounts approved for payment, on an FRN basis, do not exceed the funding commitment limits or that such FRNs are properly recorded in the COMAD database or that the funds were returned.

    b. Trace and agree the service provider name and FRN per the invoice to the approved funding commitment display.

    c. Trace and agree the FRN line item amount per the invoice to the corresponding FRN line item amount per the USAC remittance statement.

Returned Funds

43. Gain an understanding of, and document in the workpapers the process by which SLD receives, documents, processes, and approves the return of funds from service providers, including the restoration of funding caps and the Billing and Disbursements group's role in the receipt and recording of returned funds.

44. Obtain an electronic copy of the Returned Funds Log from USAC's SLD and an electronic copy of the Returned Funds Log form USAC's Billing and Disbursement group containing all funds returned in 2003.

45. From the returned funds 'logs', select a random sample of 20 FRNs and ensure that the returned funds were received and appropriately documented and the amounts restored to the corresponding FRN. Compare and agree the returned fund information recorded in the Billing and Disbursement log to the SLD Returned Fund log, noting and investigating any discrepancies.

46. Note that the selected Returned Funds were appropriately restored back to the FRNs originally granted. Obtain access to the Restored Fund Table from the Oracle database and ensure agreement between records per Oracle and the Returned Fund Log. Document and obtain explanations for any differences identified.

47. Select a random sample of returned funds from the Returned Fund log and perform the following for each returned fund selected:

    a. Ensure the initial disbursement of the funds subsequently returned. Trace the FRN selected to the USAC original remittance statement and agree the funding amount returned to the initial approved distribution of funds. For circumstances where only partial funding was returned, verify that the amount returned is less than the original funding amount.

b. Trace and agree the FRN and returned funds amount per the Returned Fund Log to the USAC Returned Disbursement Form. Verify information per the USAC Returned Disbursement Form to the corresponding supporting documentation (copy of original check returned; remittance advice for reimbursement check from service provider; or other authorized support, as applicable; for "netted funds" where the amount to be returned is netted against other Form 498 Universal Service obligations) and review for propriety and reasonableness.

Fund Management/Performance in Accordance With Available Funds

48. Discuss and document controls utilized by SLD to ensure that the S&L Support Mechanism funding cap is not exceeded. Understand the controls used to ensure that sufficient funding is reserved for all Priority 1 service requests (telecommunication services and Internet access) likely to be approved prior to Priority 2 service requests (internal connections) and that Priority 2 service requests are prioritized for funding based on the approved discount level and funding threshold of the applicant. Discuss and document the establishment of the contingency funding reserve as a measure of protection for appeals or applications where USAC may have made a processing error. In addition:

    Inquire and test controls to ensure that the amount and process for adjustment of this funding contingency has been approved by USAC and the FCC Wireline Competition Bureau.

    a. Obtain and validate the spreadsheet or other supporting documentation prepared by USAC to support this process.

Document, discuss, and evaluate the sampling methodology used by USAC to determine anticipated service demand.

Outreach, Public Education, and Website

49. Through inquiry and observation, document the outreach and public education efforts to date and the plans for the future. Also, inquire as to, and document, the existence and contents of the outreach web site.

Rules Change

50. Gain an understanding and document in the workpapers the process by which SLD ensures that all FCC rule changes are identified, documented, and incorporated into the funding process, as applicable.

51. Determine whether all FCC rule changes (from January 1, 2003 through December 12, 2003) have been identified and reviewed for applicability to the SLD funding and approval process, as appropriate.

Appeals

Gain an understanding and document the process by which SLD handles appeals from program participants. These appeals include but are not limited to:
A. Funding requests that were reduced and approved
B. Funding requests that were denied
C. Commitment adjustments (this may be due to 486 adjustments or other reasons)
D. Recovery of erroneously disbursed funds.
E. Audit Recovery amounts (COMAD).

52. Inquire of USAC management whether all appeals for the above categories (A-E) are included in a data file. Obtain a data file, as of the date testing is to be performed, of all appeals submitted since the inception of the S&L Support Mechanism. Use CAATs to extract all 2003 appeals. Determine approximate sample size using a confidence level of 95% and a planned precision rate of 9% and no expected deviations. Randomly select the appeal sample for each year using computer software that does not consider population skewness.

53. To ensure that appeals received were processed, in accordance with FCC program guidelines, perform the following for each appeals selected:

    a. Obtain the appeal folders for the sample selected above and agree the applicant name and appeal date from the data file to the folder.

    b. Verify that the appeal correspondence was received or postmarked (depending on timing) within the 60-day appeal window from the date the FCDL was mailed or the date of the 486 notification letter, as applicable.

    c. Document the reasons for the applicants appeal and review the underlying documentation supporting the appeal to verify that the appeal decision complies with FCC program guidelines (i.e., eligible services, eligible entities, discount calculations, etc.).

Other

Disbursements

Objectives

1. To ensure that USAC management ("management") (and personnel) is performing disbursement functions in accordance with the FCC Rules and Regulations.

2. To ensure that only authorized payments are disbursed when sufficient funds are available.

3. To ensure the payments are accurate and properly authorized.

Procedures

1. Discuss with management and document in the workpapers the disbursement procedures that are in place.

2. Service Providers are required to file a Form 498 (which contains the banking information and the taxpayer identification number) in order to receive requested payments. The Form 498 must be accompanied by a signed letter on (service provider) company letterhead attesting to the accuracy of the information submitted to USAC. The process of submitting this form is referred to as "registration" and authorizes USAC to remit payment in the future. To ascertain the propriety of the Form 498 perform the following: from the sample selected at each support mechanism level, select a random sub-sample of 45 disbursements per support mechanism for review and perform the following for each:

    a. Request a copy of the service provider Form 498 and inspect for completeness.

    b. Ensure that a signed letter accompanies the form on company letterhead attesting to the accuracy of the information submitted.

c. Obtain access to the Form 498 database and note that the Service Providers receiving the selected disbursements are included in the database.

3. Inquire of management on the procedures pertaining to the receipt and processing of service providers' invoices. Document in the workpapers the process followed to identify those invoices that are to be paid and those invoices that are to be offset against the carrier obligation to the universal service fund. Note the process in place for debiting the service providers' accounts either through actual payments or offset against their obligation to the universal service fund. Document in the workpapers how USAC updates service providers' accounts.

4. In order to perform steps outlined in the AUP related to disbursements, a master file was created that consisted of invoices approved for payment by NECA and disbursements made by USAC. In order to ensure that USAC is processing all electronic payment files timely, perform the following:

   a. Discuss and document in the workpapers the controls in place to ensure that payments are made on a timely basis.

   b. Using the "master file," extract line items that are designated as SPIs into one file and those designated as BEARs into another file.

   c. Using the "master file," sort the payments by BEARs and SPIs, then by batch ID. Verify through review of the corresponding invoice process dates that the batches are paid on a timely basis.

5. All requests for payments are processed in batches, except those requests containing errors, which are excluded from payment. Batch of requests free from errors can be paid at one time when sufficient funds are available for the entire batch.

   a. Discuss with USAC personnel and document in the workpapers how the daily cash available amount is determined for disbursing funds.

6. In order to ensure that credit balances at year-end are cleared in accordance with FCC Rules Section 54.515 (b) and 54.611 (b), obtain a list of service providers' balances at year-end. Select a sample of service providers and for each service provider selected verify that any credit balance at year-end was cleared subsequently by tracing the credit balance per the listing to a check copy/wire advice noting agreement of payee, amount, and date.

   a. Ascertain whether the sampled items (disbursements to service providers) have any outstanding debt or accounts receivable prior to any disbursements. Document the controls management has in place over this process.

7. Review and document the controls in the workpapers to ensure that the monthly disbursements from the High Cost Support Mechanism are properly authorized, in accordance with management's criteria, by reviewing the applicable disbursement's authorization form.

8. Agree on a test basis the HCL, LSS, LTS, HCM, ICLS, and IAS Payment amounts for selected months and perform the following:

   a. Tie the total monthly amount, and the carriers, to the disbursement report for non-pool participants and to the EC 2100 or Adjustment report for pooled participants.

b. Inquire and document in the workpapers the controls in place to prevent carriers from being compensated twice, through NECA and directly by USAC.

9. Inquire, test, and document controls to ensure that the monthly disbursements from the Low Income Support Mechanism are properly authorized, in accordance with management's criteria by reviewing the applicable disbursements authorization form.

10. The Low Income Disbursement Report is the monthly report of low-income participants by study area and the total Lifeline, Link-up, and TLS that is due to each participant. This is the file that USAC's treasury downloads and uses as the low-income payment information for each month to determine the amount that is to be transferred to NECA Treasury as the carrier's agent and the amount that is to be directly disbursed to carriers.

    a. Ensure that USAC management properly authorizes the funds transferred from USAC to NECA and the amount does not exceed the total amount due to carriers that have selected NECA as their agent.

    b. For the 45 carriers selected within Low Income Step 2, match the amount disbursed to each carrier by USAC and/or NECA to the amount requested by each carrier. Note any differences.

    c. Inquire and document in the workpaper's the controls in place to prevent carriers from being compensated twice, through the NECA pool and directly by USAC.

11. Discuss with management and review procedures in place to inform USAC that the services, which it authorized for payment, have indeed been paid.

12. Review, on a test basis, disbursements for administrative services for proper authorization.

13. Inquire, document in the workpapers, and inspect USAC's procedures and controls for identifying and implementing the choice that carriers have made for netting or non-netting contributions with reimbursements for qualified universal services rendered to the Schools and Libraries Mechanism. For the disbursement samples selected for review in the Schools & Libraries Support Mechanism (AUP 31) and for those Form 498's obtained as a sub-sample in AUP 2, ensure that carriers who elected netting are properly netted and that non-netting service providers received payment.

14. Obtain a summary of the amounts netted against contributions and/or disbursed directly to carriers for 1 month during 2003. Compare with amounts projected in the filing with the FCC. Note when the amounts netted and/or directly disbursed are in excess of the amount projected.

15. For the 45 Rural Health care disbursements samples selected for review in the Rural Health Care Support Mechanism (AUP 19), ensure that all carriers who are contributors to the USF had netting occur and those that are not received payments.

16. Discuss and document in a memo the procedures implemented as a result of USAC internal audits regarding weaknesses in controls in the application process and the commitment/disbursement of funds.